



Arcadia University Center for Italian Studies  
**ROMA IBUS 302**

**International Finance**

*(based on the course taught at the Kogod School of Business, American University)*

3 credits

**Course Description:**

The International Finance course is analytical in nature and requires solid quantitative skills. It introduces the student to topics of international corporate financial and investment management.

The course presents the financial theories and quantitative tools necessary for making international financial decisions. Extensive coverage is given to the topics of (1) various types of risk exposures involved in international business and types of instruments for global risk management; (2) operations of foreign exchange, international banking and money, international bond and equity markets; (3) financing and investment decisions that multinational firms face in the real world; and (4) derivative markets and investment strategies. The course helps develop the skills necessary to function as an international financial manager. The course will make use of the program's unique setting in Italy and the European Union.

**Prerequisites**

Satisfactory completion of at least one undergraduate semester course in economics. For group cases, proficiency with Excel is critical. Knowledge of mathematical statistics is also important – it is hard to talk about risk without referring to standard deviations, or to talk about cross-hedging without computing correlations.

**Learning Outcomes**

This course's objective is to introduce undergraduate students to the international aspects of financial decision making. Individuals skilled at understanding, identifying, measuring, pricing and hedging economic and financial exposures to exchange rate movements continue to be in demand not just on Wall Street but elsewhere in the corporate and policy world.

The course includes a deeper coverage of some tools that are familiar from the key finance course (Business Finance), as well as many new tools not seen previously in the curriculum.

Logically, the study of the international financial environment in which individuals and corporations operate, and of how exchange rate levels get determined, should precede the study of how financial managers do or ought to behave in this environment. The course is organized accordingly. It provides self-contained studies of the main instruments used by foreign-currency traders and of the exchange rate determination process, before covering the concepts necessary to tackle FX risk measurement and management, international capital budgeting, international financing (including swaps), and – as time allows – international portfolio diversification.

**Outline**

- In the first part of the course, we will examine the mechanics of the International Financial Management and the impact of Globalization on the economies and the multinational firms. We will focus on the International Monetary System and the supranational institutions as it was conceived and as it is working now, with the major role of the FED, the IMF, the World Bank, the ECB. We also place a strong emphasis on forwards, as these contracts are the main tools used to hedge exchange

rate risk. We look at currency futures and options, with an emphasis on explaining why futures and forwards differ and why they are used for similar yet distinct purposes. Finally, we analyze currency swaps, contrast the latter with FX swaps, and discuss their valuation.

- In the second part of the course, we will have taken the spot exchange rate as given and shown how the prices of foreign exchange forwards, futures and options are related to that spot rate. In the second part of the course, we answer the question of where the spot exchange rates come from. Specifically, we discuss models of spot exchange rate determination, forex market efficiency (including the concept and practice of “carry trades”), and exchange rate forecasting. We also present an overview of the international monetary system. In particular, we discuss the merits and drawbacks of various exchange rate regimes, including fixed rates, crawling pegs, currency boards, currency unions, etc.
- We will study how to invest in the **Wine sector** and the differences among Italian firms and those of other countries. Furthermore we will see how wine bottles are used as investment instruments.
- In the third part of the course, the framework developed in the first two parts is used to tackle the issue of exchange-rate risk measurement and management. We contrast nominal and real exchange rate risks. We show how to measure a company's transaction and economic exchange-risk exposure; argue whether transaction exposure should be systematically hedged away and discuss various hedging techniques; and analyze how to best control economic exposure. As time allows, we shall also introduce accounting exposure and political risk management.
- In the fourth part of the course, we turn to the impact of the international environment on corporate capital decisions. There, we discuss capital budgeting in an international context, the choice of discount rates for international investments, and the cost of capital for an international firm. In this process, we tackle interest rate and currency swaps in terms of the financing of international operations. We shall end the course by discussing international portfolio diversification.

### **Course Materials**

Required text: *International Financial Management*, 5th edition, Eun and Resnick (E&R5), 2009 ISBN: 9780071276191.

International Finance is an especially dynamic area, and students are therefore urged to follow current developments in the press. This includes reading the following publications: Bloomberg ([www.bloomberg.com](http://www.bloomberg.com)), The Economist ([www.economist.com](http://www.economist.com)), Financial Times ([www.ft.com](http://www.ft.com)), The Wall Street Journal ([www.wsj.com](http://www.wsj.com)).

### **Course Requirements and Grading Percent**

Midterm Exam 25%

Final Exam 30%

Group Projects & Homeworks 35%

Class Participation 10%

**Total Max. Points: 100%**

**Class participation is important** and shall be explicitly rewarded (10% of the total grade). Students' individual class participation grade shall be based largely on the quality of their contribution to the discussion; students are not expected to "compete for air time" by engaging in minor discussions. This being said, students should not refrain from asking clarifying questions or from demanding back-up data/logic to assertions made.

### Collaboration

As explained above, students within a group will be judged, partly, by how well they work together. In contrast, it goes without saying that students are not allowed to collaborate with any other person during the final exam. Failure to respect these requirements shall be considered cheating and dealt with accordingly.

### Attendance and punctuality

Attendance is mandatory and travel does not constitute an excused absence from class, nor do visits from family and friends. As per academic policy, a **maximum of three hours' absence** (not 3 lessons) is allowed. Thereafter, additional absences will be excused only on proven medical grounds; otherwise, they will result in a lower final grade. Specifically, each additional, unexcused absence will lower a student's grade by one notch: e.g., with four absences an A- will be lowered to B+, with five absences a B, and with six absences a B-. More than 8 absences will result in an automatic failure of the course.

We also demand punctuality.

Prof. Luigi Tocchetti

### Class Schedule and Topics

CLASS	TOPICS COVERED	READINGS	ASSIGN. DUE
1	INTRODUCTION - FINANCE TODAY - IS THE WORLD FINANCIAL SYSTEM COLLAPSING? WHAT'S NEXT? - " <i>INSIDE JOB</i> " MOVIE PROJECTION - THE PONZI SCHEME	CH. 1 + APP. 1A	
2	INTERNATIONAL MONETARY SYSTEM - BALANCE OF PAYMENTS - THE TRUTH ABOUT DEBT, FED, IMF, WORLD BANK - THE "ECONOMIC HITMAN" - MOVIE PROJECTION	CH. 2-3 + APP. 3A	
3	THE FOREIGN EXCHANGE MARKET - FX QUOTATIONS. INTERNATIONAL PARITY RELATIONSHIP AND FORECASTING FOREIGN EXCHANGE RATES.	CH. 5-6 + APP. 6A	HW1
4	FUTURES AND OPTIONS CONTRACTS AND THE FX	CH. 7	
5	TRANSACTION AND ECONOMIC EXPOSURES - MIDTERM REVIEW	CH. 8-9	
6	<b>MIDTERM EXAM</b>		
7	TRANSLATION EXPOSURE - MIDTERM EXAM REVIEW	CH. 10	
8	INVESTING IN WINE		

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9	2 DAYS FIELD STUDY - TUSCANY - WINE INVESTING - THE ITALIAN BUSINESS MODEL - EXPLOITING THE TERRITORY IN A SUSTAINABLE WAY	Handouts	
10	INTERNATIONAL BANKING AND MONEY MARKETS - INTERNATIONAL BOND MARKET	CH. 11-12	
	SPRING BREAK		
11	INTEREST RATE AND CURRENCY SWAPS	CH. 14	PROJECT
12	INTERNATIONAL PORTFOLIO INVESTMENT	CH.15	
13	1 DAY FIELD STUDY (TO BE DETERMINED)		
14	FOREIGN DIRECT INVESTMENT AND CROSS BORDER AQUISITIONS - INTERNATIONAL CAPITAL STRUCTURE AND THE COST OF CAPITAL	CH. 16-17	HW2
15	INTERNATIONAL CAPITAL BUDGETING - INTERNATIONAL TAX ENVIRONMENT - TODAY'S PARADOX	CH. 18 AND 21	
16	FINAL EXAM		